

Message Text

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ORIGIN ARA-14

INFO OCT-01 ISO-00 HA-05 EB-08 L-03 SS-15 SP-02
CIAE-00 INR-10 NSAE-00 TRSE-00 H-01 COME-00 IO-13
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ARA/ECA:RWZIMMERMANN
HA:MSCHNEIDER (INFO)
EB/ODF:FNASH (INFO)
L/HA:CRUNYON (INFO)
D:SOXMAN (INFO)

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FM SECSTATE WASHDC
TO AMEMBASSY MONTEVIDEO

C O N F I D E N T I A L STATE 104260

E.O. 11652: GDS

TAGS: TAGS

SUBJECT: IBRD VOCATIONAL TRAINING LOAN; IDB TRANCHE OF
UTE LOAN
REF: A) MONTEVIDEO I244; B) STATE 094I40; C) MONTEVIDEO
1142; D) STATE 096849; E) STATE 77922

I. THE INTERAGENCY GROUP WILL CONSIDER AT ITS APRIL 28
MEETING THE \$8 MILLION IBRD LOAN FOR VOCATIONAL TRAINING,
(REFTEL B). WE HAVE OBTAINED ADDITIONAL INFORMATION ABOUT
THIS LOAN SINCE SENDING REF B. THE LOAN IS NOT SCHEDULED
FOR CONSIDERATION BY THE IBRD BOARD UNTIL MAY 28, AND THAT
PORTION OF THE OVERALL PROJECT TO BE FINANCED BY THE IBRD
MEETS BASIC HUMAN NEEDS (BHN). THE IBRD WILL PROVIDE FUNDS
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FOR ONLY THE VOCATIONAL TRAINING PROGRAM, NOT FOR PREIN-
VESTMENT AND TECHNOLOGY TRANSFER, WHICH WILL BE DIRECTLY
FINANCED BY THE GOU. IBRD SOURCES TELL US THAT THE VO-
CATIONAL TRAINING PROGRAM WILL BENEFIT LOWER INCOME GROUPS,
BOTH URBAN AND RURAL, BY PROVIDING THEM WITH JOB SKILLS.

2. THE STAFF LEVEL WORKING GROUP AGREED THAT THE LOAN

MEETS BHN AND HAS SO ADVISED THE INTERAGENCY GROUP. THIS ADMINISTRATION HAS NOT PREVIOUSLY CONSIDERED A BHN LOAN IN THE IFI'S FOR URUGUAY. ARA WILL URGE AT THE INTER-AGENCY GROUP'S NEXT MEETING ON APRIL 28 THAT NO DECISION BE TAKEN ON THIS LOAN UNTIL SOMETIME IN THE SECOND HALF OF MAY, IN ORDER TO FURTHER EVALUATE THE SO FAR FAVORABLE RESULTS OF THE ABA VISIT. ARA BELIEVES THAT THE FAVORABLE RECENT DEVELOPMENTS IN URUGUAY REQUIRE THAT THE U.S. NOT DEVIATE FROM THE POLICY OF SUPPORTING BHN LOANS. (CHILE HAS BEEN THE ONLY EXCEPTION TO DATE). SOME ELEMENTS OF THE INTERAGENCY GROUP HAVE INDICATED THEY COULD SUPPORT AN AFFIRMATIVE VOTE.

3. ASSUMING THE ARA STRATEGY OF DEFERRING A DECISION ON THE VOCATIONAL TRAINING LOAN UNTIL AFTER MID-MAY IS ADOPTED, THE EMBASSY SHOULD BE PREPARED TO SUBMIT A REPORT AT THAT TIME DETAILING GOU ACTIONS WHICH WOULD JUSTIFY AN AFFIRMATIVE VOTE. (AN ABSTENTION ON A BHN LOAN WOULD REPRESENT A MORE RESTRICTIVE POLICY RATHER THAN A SIGNAL OF ENCOURAGEMENT.)

4. WE HAVE ALSO BEEN ADVISED BY THE U.S. EXECUTIVE DIRECTOR'S OFFICE THAT THE INTER-AMERICAN DEVELOPMENT BANK BOARD MAY CONSIDER THE IDB TRANCHE (\$18.6 MILLION) OF THE UTE ELECTRICAL TRANSMISSION LOAN (REF C) AS EARLY AS MAY OR JUNE. THIS CONFLICTS WITH INFORMATION WHICH CONFIDENTIAL

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AID DIRECTOR HORWITZ OBTAINED FROM SOURCES IN BOTH BANKS DURING HIS CURRENT WASHINGTON CONSULTATIONS. BECAUSE SOME ELEMENTS OF THE STAFF WORKING GROUP CONTINUE TO BELIEVE THE POSSIBILITY EXISTS THAT THE LOAN COULD BE CONSIDERED IN THE NEXT MONTH, IT WAS DECIDED BY THE WORKING GROUP THAT THIS LOAN WOULD BE PUT ON THE AGENDA OF APRIL 28 MEETING. HOWEVER, AID DIRECTOR HORWITZ WAS TOLD THAT THE IDB WILL NOT FORMALLY CONSIDER ITS LOAN TO UTE UNTIL TECHNICAL CONDITIONS IMPOSED BY THE IBRD, THE LEAD BANK IN THIS JOINT FINANCING OPERATION, ARE MET. IBRD URUGUAY DESK OFFICER MIGUEL SCHLOSS ADVISED HORWITZ THAT UTE HAS BEEN WORKING ON THE LOAN CONDITIONS PRECEDENT FOR AT LEAST TWO YEARS. THEY INCLUDE SUCH THINGS AS APPROVAL BY THE GOU OF A NEW ELECTRICITY LAW, ITS ACCOMPANYING REGULATIONS, A NEW ORGANIC LAW FOR UTE, A UTE REORGANIZATION, AND REVISED SALARY PLAN, A NEW RATE SCHEDULE, A LONG-TERM INVESTMENT PLAN, HLOSS STATED SETTLEMENT OF PUBLIC SECTOR DEBTS TO UTE. SCHLOSS STATED THE IBRD WOULD BE PREPARED TO BEGIN NEGOTIATIONS WITH THE GOU ONCE THERE IS SIGNIFICANT PROGRESS ON THESE POINTS, BUT WOULD NOT TAKE THE LOAN TO THE BOARD UNTIL ALL CONDITIONS ARE FULLY SATISFIED. THE IBRD SENT A CABLE TO

UTE RECENTLY ASKING WHETHER THE CONDITIONS WOULD BE MET IN TIME TO PERMIT GOING TO THE BOARD THIS FISCAL YEAR ENDING JUNE 30. THE UTE REPLY INDICATES PROGRESS, BUT SUBSTANTIAL WORK YET TO BE DONE BEFORE CONDITIONS ARE MET. SCHLOSS ESTIMATES THAT THE LOAN IS UNLIKELY TO COME UP FOR BOARD CONSIDERATION UNTIL NEAR THE END OF 1978

BECAUSE OF THE CURRENT BUREAUCRATIC PACE OF THE GOU IN MEETING THE CONDITIONS. IBD URUGUAYAN DESK OFFICE, PABLO LINARES, CONFIRMED THE SAME SENARIO TO HORWITZ IN A SEPARATE CONVERSATION.

5. AS THE EMBASSY IS AWARE, THE INTERAGENCY GROUP DECIDED ON FEBRUARY 27 (REFTEL E) TO SEEK POSTPONEMENT OF CONFIDENTIAL

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THE UTE LOAN BECAUSE IT DID NOT MEET BHN CRITERIA. IF, IN FACT, THE \$18.6 MILLION IDB TRANCHE COMES BEFORE THE BOARD AS EARLY AS MAY, THE U.S. WOULD VOTE AGAINST THE LOAN. HOWEVER, IF CONSIDERATION IS DELAYED, AS INDICATED TO HORWITZ, UNTIL LATE IN 1978, HUMAN RIGHTS IMPROVEMENTS MOTIVATED BY THE ABA VISIT AND OUR OTHER EFFORTS MIGHT PROVIDE GROUNDS FOR AN ABSTENTION. VANCE

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